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# Content

<b>Analysis of competitiveness of the postal services industry in Mongolia</b>	<b>1</b>
Enebish Jambal, Oyuntungalag Yadamsuren, Oyuntungalag Buyantur, Sumjidmaa Tumurchudur, Tsolmon Jambal	
<b>The development of e-commerce turnover in the Czech Republic during economic crises: a case study</b>	<b>16</b>
Kristína Korená, Petra Pártlová, David Vyšín	
<b>Rules for Expert Institutes' Work Procedures Ensuring Proper Performance of Expert Activities</b>	<b>37</b>
Petr Ševčík	
<b>Assessing factors Affecting Tax Compliance Intention</b>	<b>48</b>
Galmandakh Urlee, Sumjidmaa Tumurchudur, Oyuntungalag Buyantur	
<b>Effectiveness measurement for cleaning services</b>	<b>61</b>
Ekaterina Chytilová, Petra Palmová	
<b>Assessing Global Innovation Index: A Comprehensive Analysis of its Metrics, Methodology, and Implications</b>	<b>74</b>
Gjergji Tafa, Besarta Tafa	
<b>Multicultural Training as a Tool Increasing the Work and Management Efficiency in an International Environment: Qualitative Survey of Czech Businesses Experience</b>	<b>93</b>
Jan Urban, Zdeněk Čaha, Michal Ruschak, Mario Bogdanović	

## **Assessing factors Affecting Tax Compliance Intention**

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### **Abstract**

According to the tax office of Mongolia, as of 2021, 65 percent of registered enterprises have submitted tax returns, with an accumulated tax liability reaching 3.2 trillion MNT. However, research aimed at elucidating the reasons for non-compliance with tax laws is relatively limited in our country. The aim of this study is to investigate Corporate Income Tax (CIT) compliance utilizing the theory of causality and planned behavior. In this study, factors such as tax consulting services, the electronic tax system, tax simplicity, and tax knowledge were selected for examination. The survey data of 395 active companies affirmed that tax consulting services, tax knowledge, the electronic tax system, and tax simplicity exert influence on compliance intention. Thus, prioritizing the enforcement of tax laws is crucial for fostering cooperation and trust between tax authorities and taxpayers, ultimately enhancing tax compliance.

**Keywords:** tax advisory services, planned behavior, tax simplicity, e-tax system, tax awareness

### **Introduction**

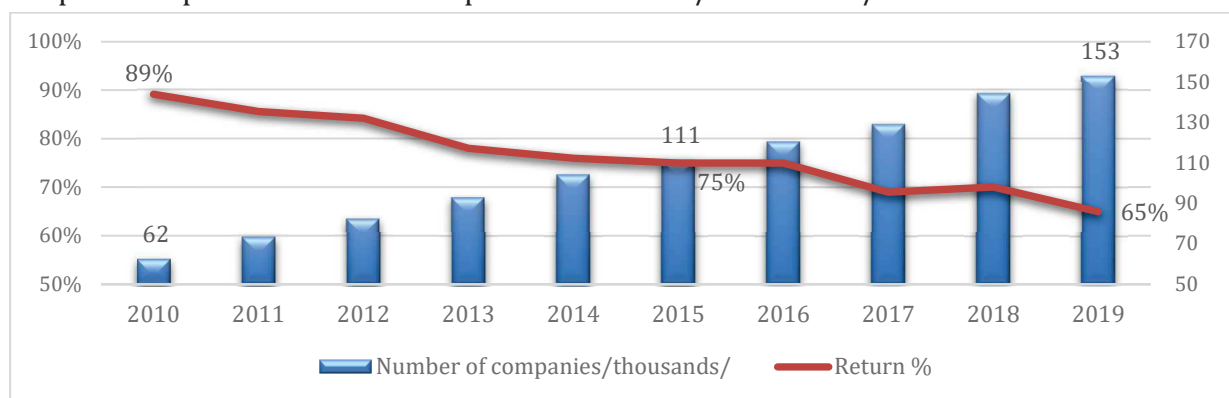
In 1992, the National Assembly ratified a comprehensive set of tax laws, ushering in the establishment of novel tax categories. This legislation marked a transition towards a system where taxpayers were responsible for determining their taxes and remitting payments following the rates and amounts stipulated by law, subject to specified

reasons and procedures. Among the initial four taxes sanctioned by the Parliament in 1992, the Enterprise Income Tax (EIT) stands out as the principal revenue-generating tax for Mongolia's budget. The legislation governing EIT underwent revisions in both 2006 and 2019, reflecting the evolving fiscal landscape and necessitating adjustments to tax regulations.

Since taxes are the main means of generating budget revenue in Mongolia, tax compliance behavior and efficient collection of tax revenues have always been one of the issues to be solved by the tax authorities. Within this framework, the Mongolian Tax Service has been developing an electronic tax reporting system over the past 10 years. Presently, taxpayers can transmit tax reports directly from financial software, generate simplified reports utilizing data from the electronic payment receipt system, conduct real-time online tax payments, register taxpayers, and fulfill tax obligations electronically. This system facilitates the electronic submission of 23 types of reports and 15 types of requests, streamlining tax-related processes and enhancing administrative efficiency. By anticipating taxpayer behavior and employing incentives to influence their decisions, a targeted intervention was conducted, involving the dissemination of text messages and emails regarding tax reporting and payment to 1,462 taxpayers. As a result, 152 reports were revised, leading to an increase in income by 55 billion MNT and a reduction in expenses by 79 billion MNT. Consequently, tax revenue surged by 29 billion MNT (Batsaikhan, 2022).

Between 2002 and 2003, approximately 94-95 percent of the 21,800 enterprises obligated to submit Corporate Income Tax (CIT) reports complied with this requirement. However, a noticeable decline in the submission of corporate income tax returns has been observed since 2010. By 2019, only 65 percent of the 152,000 mandated enterprises had submitted their reports. Over a decade from 2010 to 2019, data reveals that the number of enterprises grew at an annual rate of 11 percent, whereas reporting compliance decreased by 3 percent annually (Graph 1).

Graph 1: Corporate income tax reports return rate/2010-2019/



Source: Chybí

### Tax compliance behaviour

Due to variations in tax reporting requirements and laws among countries, there exists no universally accepted definition of tax compliance behavior. Consequently, scholars have delineated it in various ways, aligning with the specific objectives of their research endeavors. The study of tax compliance behavior commenced in the 1970s. For instance, Roth et al. (1989) posited that tax compliance behavior entails a scenario where a taxpayer submits tax returns punctually and accurately reports tax obligations in accordance with prevailing laws and regulations at the time of income declaration. Conversely, James and Alley (2000) offered a broader perspective, characterizing tax compliance behavior as a "continuous process" extending beyond mere adherence to tax regulations to encompass the broader behavioral patterns of taxpayers (James & Alley, 2002).

Bidin et al. assert that tax compliance entails the complete payment of all taxes owed (Bidin et al., 2011). Similarly, Alm (1991) and Jackson and Milliron (1986) define tax compliance as the act of reporting income and remitting taxes under tax laws, regulations, and judicial decisions. Paying taxes, within this framework, is construed as a manifestation of tax compliance behavior (Alm, 1991). Roth (1989), Alm (1991), Jackson and Milliron (1986), Kirchler (2007), James and Alley (2000), Franzoni (2000), Chattopadhyay and DasGupta (2002), and Palil (2010), among others, concur on a definition of tax compliance, stipulating it as the taxpayer's willingness to accurately declare income, correctly apply deductions and exemptions, and timely remit all taxes owed (Bidin et al.). Additionally, a key indicator of tax compliance is when a taxpayer submits a tax return, accurately reports taxable income, fulfills all tax obligations within prescribed timelines and does not necessitate coercive measures by tax authorities.

In general, compliance behavior can be understood as the act of acting according to the law (Tilahun, 2019). Moreover, tax compliance behavior is classified as voluntary or involuntary (Kirchler, 2007a). Voluntary compliance is the willingness of taxpayers to comply with tax laws as a result of trust and cooperation between tax authorities and taxpayers. However, coercive compliance means that due to a lack of trust and cooperation between the tax authority and the taxpayer, the taxpayer does not comply with the tax legislation, and then the tax authority enforces the tax legislation by conducting inspections and imposing responsibility. Specifically, coercive compliance denotes the use of governmental coercion to ensure taxpayer tax payment, whereas voluntary behavior entails taxpayers' willingness to fulfill tax obligations without coercion from authorities (Silvani & Baer, 1997). Moreover, individuals with high tax ethics are less likely to engage in tax evasion, even when presented with potential economic benefits (Molero & Pujol, 2012).

There are two primary approaches to the study of tax compliance behavior: the economic approach and the taxpayer behavior approach. The economic approach examines tax compliance behavior through an economic lens, drawing upon economic theory for its framework. The seminal work in this domain was undertaken by Allingham and Sandmo in 1972 (Allingham & Sandmo, 1972). Their model posits that taxpayers declare their income considering tax rates, the likelihood of detection, and

penalties. In essence, it has been established that the level of income reported for taxation is directly linked to the probability of being caught for non-compliance and the severity of penalties, while inversely correlated with tax rates. An economic theory-based approach assumes that taxpayers make rational decisions aimed at maximizing anticipated post-tax returns, with tax compliance behavior contingent upon economic incentives or disincentives (Hamid, 2013).

Conversely, this approach posits that taxpayers, akin to rational actors, weigh the risks and benefits before engaging in illicit activities (Becker, 1968). While early studies rooted in economic theory laid a foundational understanding of tax compliance behavior, they encountered critique for their omission of psychological and sociological factors that influence taxpayer compliance with tax laws absent coercion (Alm, 1999; Torgler, 2002). In contrast, the behavioral approach draws upon social and psychological theories to investigate tax compliance behavior (Kristina, 2004). Theories commonly employed to forecast behavior within this framework include the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB) (Armitage & Conner, 2001).

The Theory of Reasoned Action (TRA), a social psychological theory (Sheppard et al., 1988), was formulated by Ajzen and Fishbein (1980) to elucidate human behavior. According to this theory, individuals are inclined to engage in behaviors they perceive as leading to favorable outcomes (attitudes), thus increasing the likelihood of performing said behavior. The TRA model comprises two main components: attitude toward the behavior and subjective norm (Figure 3). Attitude toward a behavior pertains to whether an individual perceives the consequences of that behavior as positive or negative. Conversely, subjective norms denote the societal pressures, either supportive or prohibitive, influencing the performance of a particular behavior. While TRA excels in articulating norms that reflect an individual's attitudes and social milieu, it also suggests that behavioral intentions do not invariably translate into actual behavior enactment.

The Theory of Planned Behavior (TPB) represents an extension of the Theory of Reasoned Action (TRA) by incorporating the component of behavioral control, aiming to enhance the predictive capacity of the causal theory (Ajzen, 1985). The initial conceptualization of the TRA posited that an individual's attitude and subjective norms solely influence the intention to engage in a particular behavior. By introducing the concept of "perceived behavioral control," TPB expands this framework, enabling a more accurate determination of an individual's intention to enact a behavior under controlled circumstances. The Theory of Planned Behavior posits that human behavior is influenced not solely by desire but also by an individual's capability to regulate the execution of said behavior (Hamid, 2013). This implies that control over behavior performance is also a significant determinant. In other words, in the theory of planned behavior, it is believed that human behavior is determined not only by desire but also by the ability of the person to control the performance of the behavior (Hamid, 2013) control is also affected.



Theories stemming from economic, social, and psychological sciences have significantly contributed to the analysis of tax compliance behavior, as well as the identification and categorization of its influencing factors (Marandu et al., 2015). For instance, Jackson and Milliron (1986) conducted an exhaustive review encompassing 43 studies on tax compliance behavior spanning from 1970 to 1985, wherein they identified 14 distinct factors exerting influence. These factors encompass age, gender, education, income level, source of income, occupation, integrity, social influence, tax complexity, detection probability, penalties, tax rate, tax authority feedback, and tax ethics (Richardson & Sawyer, 2001). Building upon the foundation laid by Jackson and Milliron, Richardson and Sawyer (2001) extended their research timeline to cover the period from 1986 to 1997, thus providing a more comprehensive understanding of tax compliance behavior. Further elaboration on the factors affecting taxpayers' compliance behavior has been delineated into five principal categories by Kirchler (2007), Loo (2006), and Palil (2010) (Kirchler, 2007b) (Loo, 2006) (Palil, 2010). These categories include:

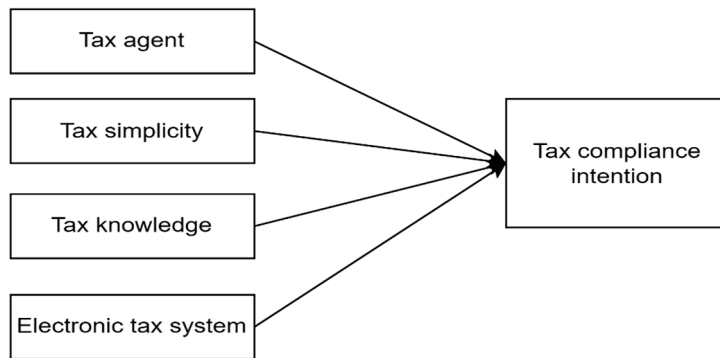
- Economic factors (such as tax rates, tax enforcement, and government expenditure forecasts).
- Institutional factors (including the role of tax authorities, simplicity of tax reporting and management procedures, and the likelihood of detection).
- Social factors (such as ethical considerations, attitudes towards taxation, perceptions of fairness and equality, political significance, and shifts in public policy).
- Personal factors (such as individuals' perceptions of financial constraints, attitudes towards tax evasion, and the threat of penalties).
- Other factors (such as age, income level, cultural background, educational attainment, and gender).

According to the theoretical framework and empirical evidence, tax compliance is integral to the core operations of an organization. Nevertheless, policies aimed at enhancing tax compliance behavior are implemented to improve adherence to tax regulations.

Within the scope of this study, the objective was to ascertain the determinants influencing the inclination of Mongolian enterprises to adhere to income tax regulations. A research framework was devised based on the amalgamation of the theory of causation and planned behavior (see Figure 2). The primary aim of this investigation is to delineate the impact of factors influencing tax compliance willingness, a crucial prerequisite for fostering future tax law adherence. Throughout the research endeavor, factors including access to tax consultancy services, utilization of electronic tax systems, tax literacy, and tax procedural simplicity were identified and examined. This study seeks to address the following questions:

- 1) How do electronic tax systems, tax consulting services, tax knowledge, and tax ease influence the intention of enterprises to comply with tax regulations?
- 2) Among these factors, which exerts the most significant influence on the intention of enterprises to comply with tax regulations?

Figure 1: Conceptual model of factors affecting the intention to comply



Source: Own.

Based on the above, the following hypotheses are posited:

H1: Tax consulting services, electronic tax systems, tax ease, and tax knowledge will impact the intention of enterprises to comply with tax regulations.

H2: Tax consulting services, electronic tax systems, tax ease, and tax knowledge will positively affect the intention to comply with tax regulations.

H3: Tax consulting services will exert a greater influence on tax compliance intention compared to other factors.

## Methods and Data

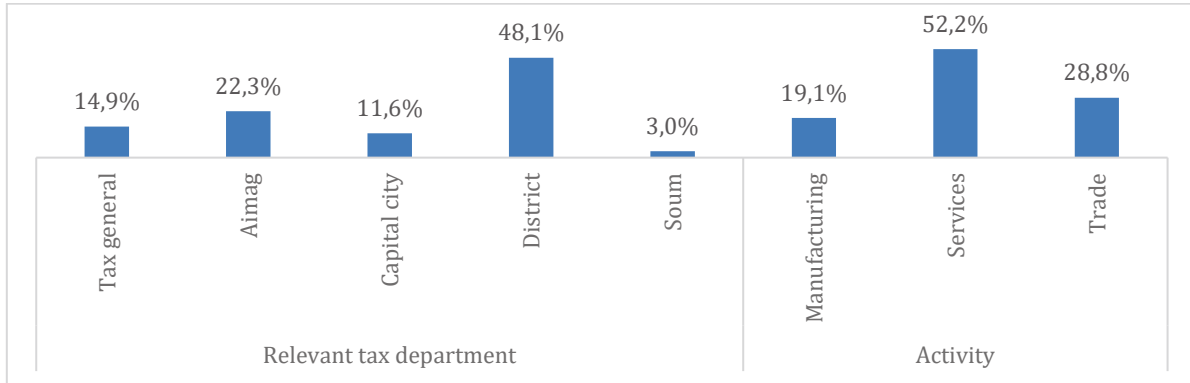
In the study, a set of 70 questions divided into 5 groups was surveyed using a 5-point Likert scale. The Kaiser-Meyer-Olkin (KMO) value, a measure of sampling adequacy for factor analysis, was employed to assess the representativeness of the sample compared to the original population (Field, 2013). A KMO value greater than 0.6 indicates satisfactory representation. The research data were processed using MS Excel and IBM SPSS Statistics 26 software programs. To evaluate the reliability of the survey questionnaire, Cronbach's alpha coefficient was utilized. This coefficient assesses the internal consistency or reliability of the questionnaire by examining correlations between different groups and sets of questions. Cronbach's alpha is not a statistical test but rather a measure of reliability. Internal consistency is deemed acceptable if the Cronbach's alpha value exceeds 0.7.

## Results

The survey comprised a total of 395 respondents, including directors, accountants, and tax specialists. Among them, 77.7% were accountants, 14.4% were CEOs, 3.5% were tax consultants, and 6.3% were financial managers. In terms of industry sectors, 19.1% of enterprises operated in manufacturing, 52.2% in services, and 28.8% in trade industries. Regarding the jurisdiction of tax departments, 48.1% of participants were affiliated with district tax departments, while 11.6% were associated with the capital tax department.

Among the surveyed enterprises, 59.5% have a staff size of up to 20 employees, 16.2% have between 20 and 49 employees, and 24.3% have more than 50 employees.

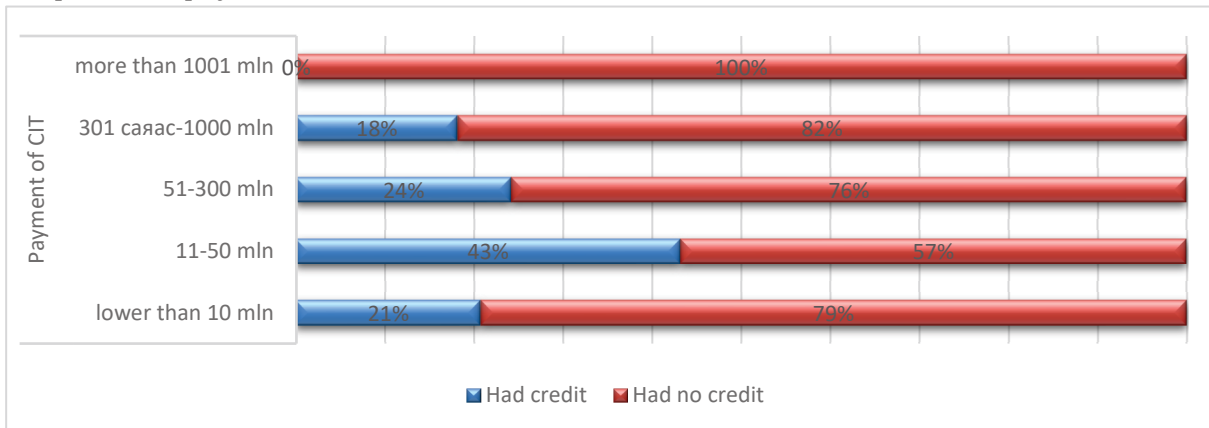
Graph 2: Industry and affiliation of enterprises, surveyed



Source: Own.

Considering the data of the average sales income of the last year, 20% were micro-enterprises with an income of less than 50 million MNT, 42% were small or have an income of 51-1500 million MNT, 24.3% have an income of 1.5-20 billion MNT, and 13.7% have an income of more than 20 billion MNT. is %.

Graph 3: CIT payments and credits



Source: Own.

Factor analysis results: In the factor analysis, the Eigen value of the factor is greater than 1 and the absolute value of the variable is greater than 0.6. Here, the KMO (Kaiser-Meyer-Olkin) value is 0.904, which indicates that the sample size is sufficient. According to the results of the analysis, Cronbach's alpha was at an appropriate level (Intention to comply with taxes-0.812, Tax consulting services-0.869, Easiness of tax payment-0.810, Tax knowledge-0.715, electronic tax system-0.950), which indicates the reliability of the questionnaire, and the variables are internally consistent (Tab 1).

Tab. 1: Factor analysis results matrix

Rotated Component Matrix <sup>a</sup>							
Variable	Items	Component					Cronbach's alpha
		1	2	3	4	5	
E-tax system	Electronic registration is easy to understand	0.847					0.950
	Electronic registration takes less time	0.811					
	Online registration is easy to fill	0.810					
	The electronic reporting form is easy to understand	0.796					
	All tax registrations are done electronically	0.778					
	The use of electronic systems has increased labor productivity	0.755					
	Electronic registration costs less	0.754					
	The electronic system treats taxpayers equally and without discrimination	0.753					
	The electronic system is easy to use and intuitive	0.730					
	Taxes are easy to file, report and type	0.729					
	Electronic payment receipts are considered primary financial documents	0.662					
	Getting a tax return has become easier.	0.657					
Paying tax debt has become easier.	0.654						
Tax consulting service	A qualified tax consultant protects the legal interests of the taxpayer		0.760				0.869
	A tax consultant participates in tax audits and defends tax returns		0.745				
	Outsourcing tax advisory services is more cost-effective		0.737				
	Changes and updates in tax laws are easily available from tax advisors		0.729				
	Our company would have been in a very difficult situation if a tax consultant had not been involved in the tax audit		0.683				
	Corporate income tax is charged because of its complex regulations		0.622				
	It is taken because of lack of knowledge about tax laws		0.604				
Intention to comply	It is fair that Large enterprises pay higher taxes than that of SMEs.			0.774			0.812
	It is fair that a more profitable enterprise pays more tax than a less profitable enterprise			0.755			
	It is correct that the reporting costs of large enterprises are higher than those of small and medium-sized enterprises			0.688			
	It is correct that the number of cases subject to tax inspection of large enterprises is higher than that of small and medium-sized enterprises			0.672			
Tax knowledge	Concepts related to Exemption-Taxable Income and Allowance-Taxable Income				0.748		0.715
	Dividend income is not included in the operating income of the enterprise				0.694		
	Taxable income is a different concept from taxable income				0.650		
Tax ease	CIT Act is easy to understand					0.813	0.810
	The report is simple and easy to fill out					0.755	

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.  
 a. Rotation converged in 6 iterations.

Source: Own.

Through factor analysis, the total of survey questions were grouped into following five categories that are tax advisory services, e-tax system, willingness to comply, tax knowledge, and tax ease. A multivariate regression analysis performed to define effects of e-tax system, tax consulting services, tax knowledge, and tax ease on intention to comply with taxes. The ANOVA test of the multivariate equation analysis and the

statistical significance of the coefficients of the variables are presented in Tab 2 and 3, respectively.

Tab 2. ANOVA test results of the multivariate equation analysis

ANOVA <sup>a</sup>						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	121.797	4	30.449	45.116	.000 <sup>b</sup>
	Residual	263.216	390	.675		
	Total	385.013	394			

a. Dependent Variable: Intention to comply

b. Predictors: (Constant), Tax Ease, Tax knowledge, Tax consulting services, E-tax systém

Source: Own.

Tab 3. Results of multivariate regression analysis

Coefficients <sup>a</sup>						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.001	.263		.002	.998
	E-tax system	.260	.066	.194	3.907	.000
	Tax consulting services,	.298	.059	.243	5.067	.000
	Tax knowledge	.170	.045	.173	3.730	.000
	Tax Ease	.243	.058	.193	4.158	.000

a. Dependent Variable: Intention to comply, R<sup>2</sup>=0.316

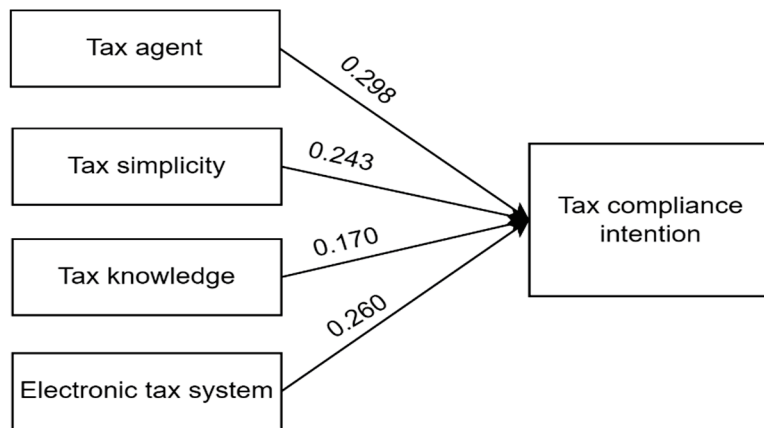
Source: Own

When considering the model of factors influencing intention to comply with tax (IC), it can be seen that four factors have an influence: Tax consulting service (TA), Electronic tax system (ETS), Tax ease (ES), and Tax knowledge (TK).

$$IC = 0.298 * TA + .260 * ETS + .243 * ES + .170 * TK \quad (1)$$

Here, Intention to comply with taxes (IC), specialized tax consulting services (TA), electronic tax system (ETS), tax ease (ES), and knowledge of taxes (TK), are considered.

Figure 2: Factors affecting intention to comply with tax



Source: Own.

Tax consulting services (0.298\*\*\*), tax e-services (0.260\*\*\*), tax ease (0.243\*\*\*), and tax knowledge (0.170\*\*\*) have statistically significant effects on the intention to comply with taxes. And all of the above factors have a positive effect on the intention to follow. Among these factors, tax consulting services (0.298\*\*\*) have the most impact on intention to comply with tax.

Tab 4. Whether the prediction came true

<i>Hypotheses</i>	<b>Supported/ Not supported</b>
<i>H1</i>	Supported
<i>H2</i>	Supported
<i>H3</i>	Supported

Source: Own.

## Conclusion

In Mongolia, the number of enterprises eligible to submit reports in 2019 has increased sevenfold since 2002, but the number of tax reports has decreased by more than 30 percent. This indicates that although the number of business owners is increasing and contributing to the economic development of the country, there is insufficient behavior in tax compliance and willingness to comply. Therefore, there is an urgent need to study the intention of enterprises to comply with income tax and the factors affecting it. Within the scope of this research, the aim was to determine the factors affecting the desire to comply and to derive a compliance model.

According to the survey results from 395 enterprises Intention to comply with taxes is depend on tax consulting services, electronic tax services, ease of taxation, and tax knowledge. The existence of tax consulting services in Mongolia for more than 20 years and the fact that enterprises perceive the importance of these services is evident from their highest impact on compliance willingness. The transition to electronic tax systems in the last decade and the 2019 reform of corporate income tax, which simplified the law

and reporting, have also influenced compliance willingness. However, tax knowledge has a relatively minor impact on compliance willingness compared to other factors. In this regard, it is necessary for tax authorities and other relevant professional organizations to collaborate to enhance the tax knowledge of enterprises. From this perspective, the fact that only two third of the enterprises report their taxes is not a favorable outcome. Therefore, the study's findings suggest that enhancing the intention to comply with taxes can be achieved by providing support services from tax authorities.

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